

DOCKET SECTION

**BEFORE THE
POSTAL RATE COMMISSION**

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DOCKET NO. R97-1

**ANSWERS OF UNITED PARCEL SERVICE WITNESS
RALPH L. LUCIANI TO INTERROGATORIES OF
UNITED STATES POSTAL SERVICE
(USPS/UPS-T4-1 through 18)**

(February 4, 1998)

Pursuant to the Commission's Rules of Practice, United Parcel Service ("UPS") hereby serves and files the responses of UPS witness Ralph L. Luciani to interrogatories USPS/UPS-T4-1 through 18 of the United States Postal Service.

Respectfully submitted,



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Of Counsel.

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USPS/UPS-T4-1. Please refer to your testimony at pages 6-7. Please explain your rationale for excluding mail preparation costs from the pool of outgoing mail processing costs that DBMC avoids.

Response to USPS/UPS-T4-1. The exclusion is based on the testimony of Mr. Acheson in Docket No. R90-1. The Postal Service has not explained what, if anything, has changed that would make this exclusion appropriate in Docket No. R90-1 (and in Docket No. MC97-2), but not in this proceeding. Moreover, it is likely that outgoing mail preparation costs at non-BMCs are associated with local intra-BMC parcels that do not travel to the BMC. Such costs would not be part of the difference in processing costs between a parcel that travels on the origin legs to the BMC and a DBMC parcel that is entered at the BMC.

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USPS/UPS-T4-2. Please refer to your testimony at page 7. Please explain exactly how you believe “window and acceptance costs” are overstated or double-counted because of the decision not to exclude platform acceptance from the pool of outgoing mail processing dollars that DBMC avoids. Please state the level of this suggested overstatement in cents.

Response to USPS/UPS-T4-2. My testimony states that avoided window and acceptance cost savings are double-counted. The acceptance cost savings for DBMC parcels were computed by Mr. Crum in USPS-T-28, Exhibit A, by taking into account the difference in the cost of platform acceptance (i.e., Accepting Mail from Patron on Platform, Library Reference H-1) between DBMC parcels and non-DBMC parcels. This completely captures the platform acceptance cost savings for DBMC parcels. In light of Mr. Crum's Exhibit A calculations, the platform acceptance operation must be excluded from the DBMC mail processing cost savings calculation, as Mr. Acheson did in Docket No. R90-1 and as Mr. Crum did in Docket No. MC97-2. To subsequently include platform acceptance costs for non-DBMC parcels as part of the mail processing costs avoided by DBMC mail, as Mr. Crum does in USPS-T-28, Exhibit C, is a clear double count. I have not separately computed the impact of the double-count; correcting the platform acceptance double count along with excluding the mail preparation costs from the pool of avoided costs results in a reduction in the DBMC discount of 5.0 cents per piece.

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USPS/UPS-T4-3. Please refer to pages 8-10. Please confirm that you have excluded ASF costs from the pool that DBMC avoids. Please confirm that you have not excluded ASF volumes in the associated calculation and that this treatment is inconsistent with Commission precedent. (See Docket No. R90-1, Tr. 32/16574.) Please explain the logic behind this apparent inconsistency.

Response to USPS/UPS-T4-3. Confirmed that I have excluded outgoing costs at ASFs when the ASF acts as a BMC from the pool that DBMC avoids. This is the exact amount of ASF costs that DBMC parcels do not avoid. Excluding only these ASF costs, and not all ASF costs, avoids the need to take ASF volumes into account in the calculation. Previously, the Commission did not have available the portion of ASF costs that were outgoing costs in which the ASF acts as a BMC, and thus the Commission had to remove all ASF costs and volumes from the calculation in order not to allow ASF data to distort the amount of the discount. My calculation is consistent with the Commission's objective in making the original ASF adjustment and takes into account the fact that the exact ASF cost data needed can now be estimated because of the availability of Ms. Daniel's study.

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USPS/UPS-T4-4. Please refer to pages 12-14 of your testimony.

(a) Please confirm that the calculations in witness Crum's testimony for deriving the non-transportation costs avoided by DSCF entry are based on *average* quantities per container.

(b) Assume that the Postal Service adopts implementing regulations setting *minimums* for DSCF eligibility at 10 machinable pieces per sack and 25 nonmachinable pieces per GPMC. Would you agree that if these minimums are required, the shortfall of 4.8 cents per piece that you calculate in this section of your testimony would be avoided?

Response to USPS/UPS-T4-4.

(a) Confirmed. Based on the testimony of Ms. Daniel, the actual average number of machinable parcels per sack is 5.8, which is the figure I use in my correction of Mr. Crum's calculations.

(b) Mr. Crum's analysis was based simply on an assumption regarding pieces per container. There was no suggestion that there would be minimums proscribed, and none is contained in the Postal Service's proposed classification schedule language. It is highly doubtful that such minimums could be required without seriously impacting volumes and increasing uncertainty about the estimated savings and revenue losses from the discount, since, as I show in UPS-T-4C, no more than 20 average non-machinable parcels will fit in a GPMC. If the minimums above are proscribed and

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enforced as to all sacks, (including for the "last sack" in each shipment), despite the probable loss in volume, then the shortfall would be avoided.

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USPS/UPS-T4-5. Please confirm your understanding that DSCF parcel post is not currently a functioning rate category.

Response to USPS/UPS-T4-5. Confirmed, although postal survey data indicate that significant numbers of parcels are currently being dropshipped at the DSCF.

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USPS/UPS-T4-6. Have you conducted any study or analysis to suggest that future DDU mailers will containerize their parcels in sacks? If so, please provide the results of that study.

Response to USPS/UPS-T4-6. Neither I nor the Postal Service have conducted such a study. We do know that the Postal Service “containerizes” in sacks 27% of the machinable parcels that arrive at the DDU. See USPS-T-29, Appendix V, page 3 of 17. We also know that the Postal Service containerizes in sacks 23% of the machinable parcels that arrive at the DSCF. Id. We also know that 100% of the machinable parcels dropshipped at the DSCF will be containerized in sacks. USPS-T-28 at page 5.

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USPS/UPS-T4-7. Please refer to your testimony at lines 4 and 5 of page 5. There you refer to the Commission's determination in Docket Nos. R90-1 and R94-1 of 11.3 cents and 13.4 cents per piece, respectively, for the estimated mail processing costs avoided by DMBC entry. Please confirm that the avoided costs developed in Docket No. R94-1 represented simply the application of the same percent change to the avoided costs as to the rates, and not the results of an updated cost study. If not confirmed, please explain fully, and provide reference to the Commission's analysis and methodological approach to updating the avoided mail processing costs in Docket No. R94-1.

Response to USPS/UPS-T4-7. Confirmed.

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USPS/UPS-T4-8. Please refer to your testimony at line 6 on page 14 where you refer to “DBMC entry mail – which includes DSCF entry mail – is significantly less dense than Parcel Post as a whole.” [footnote omitted]

(a) Please provide the basis for your statement that DSCF entry mail is subsumed by DBMC entry mail.

(b) Please provide all evidence available to you to indicate the density of DSCF mail.

Response to USPS/UPS-T4-8.

(a) - (b) My statement is intended to indicate that Mr. Hatfield’s data for DBMC entry mail includes DSCF entry mail. Mr. Hatfield in Appendix II, page 9 of 9, of his testimony (USPS-T-16) notes that the sum of “DSCF Cubic Feet” and “Regular DBMC Cubic Feet” totals “Total DBMC Cubic Feet.” On Appendix I, page 13 of 13, of USPS-T-16, he notes that 7.11 percent of DBMC parcels are entered at the DSCF. On Exhibit USPS-16A, he asserts that the local transportation costs for DSCF are the same as those for DBMC. In her Workpaper I.E., Ms. Mayes (USPS-T-37) computes the transportation costs for DSCF using the cube per piece by weight for DBMC.

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USPS/UPS-T4-9. Please refer to your statement at lines 7 and 8 on page 14 that a sack of DSCF parcels will contain fewer pieces than a sack of regular Parcel Post. Please define "regular Parcel Post."

Response to USPS/UPS-T4-9. The term "regular Parcel Post" is meant to indicate all Parcel Post in the aggregate.

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USPS/UPS-T4-10. Please refer to your testimony at line 16 of page 14.

Confirm that you intended to refer to DSCF and not DBMC.

Response to USPS/UPS-T4-10. Confirmed.

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USPS/UPS-T4-11. Please refer to your testimony at page 23 lines 6 and 7.

(a) Please state the basis for your statement that “the uncertainty surrounding this worksharing program [DBMC] has not diminished.”

(b) Please confirm that DBMC parcels represent more than 45 percent of total Parcel Post volume in the base year 1996. If not confirmed, please explain.

(c) Please confirm that DBMC discounts have been available to Parcel Post mailers since 1991. If not confirmed, please explain fully.

Response to USPS/UPS-T4-11.

(a) Of the nine uncertainties identified in my testimony beginning on page 26, five apply to the DBMC avoided cost calculation. Mr. Crum’s calculation of the mail processing portion of the DBMC discount is simply a recalculation of Mr. Acheson’s “top down” methodology from Docket No. R90-1. The methodology relies only on data observed where DBMC parcels are not handled rather than measuring the cost of handling DBMC parcels. As a result, institution of the DBMC discount does not necessarily make the Acheson method more accurate. No effort was made to derive the DBMC discount using the operational work flow costing approach of Ms. Daniel, which could have addressed a number of the key uncertainties that I identified. Thus, there continues to be significant uncertainty surrounding the estimated DBMC cost savings.

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- (b) Confirmed.
- (c) Confirmed.

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USPS/UPS-T4-12. Please refer to your testimony at page 23, lines 10 through 19.

(a) Please confirm that Docket No. R90-1 was the first occasion upon which the Commission was introduced to the idea of DSCF and DDU dropship discounts.

(b) Please confirm that the Postal Service has accumulated approximately 8 years of experience with DSCF and DDU discounts with Standard Mail (A) (formerly third-class).

(c) Please confirm that there may be rate design issues aside from uncertainty regarding the basis of a discount for passing through less than 100 percent of the measured savings. If not confirmed, please explain.

Response to USPS/UPS-T4-12.

(a) Confirmed that such discounts were first adopted in Docket No. R90-1 (but not for Parcel Post). With the information I have available to me, I cannot confirm that this was the first occasion the Commission was introduced to the idea.

(b) Confirmed.

(c) Confirmed that there might be. The impact on non-worksharing mailers would be another reason, as mentioned on page 24 of my testimony.

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USPS/UPS-T4-13. Please refer to your testimony at page 24 at lines 19 and 22. Please provide the basis for your calculation of the TYAR revenue per piece, including citations to the sources of volume and revenue figures. Please also provide the basis for your calculation of the overall percentage increases, including citations to the sources of volumes and revenues.

Response to USPS/UPS-T4-13. See UPS-Luciani-WP-1 for the detailed support for the data provided in Table 8.

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USPS/UPS-T4-14. Please refer to your testimony from line 23 of page 24 to line 4 of page 25, where you state: "In fact, the rates for many large mailers would decrease significantly. The large increases for single piece and small volume mailers result from the fact that all of the proposed new discounts yield revenue losses significantly in excess of the additional cost savings that would be realized because many shippers are already performing these same worksharing activities in the absence of a discount."

(a) Please confirm that any cost savings accruing as a result of shippers' already performing worksharing in the absence of a discount will help maintain lower rates for all of the mailers in the subclass or rate category, regardless of whether they have performed those worksharing activities. If not confirmed, please explain.

(b) If you have confirmed part a, please comment on the fairness of permitting the worksharing activities of one group of mailers to result in lower rates for a group of mailers who did not perform such activities.

(c) Please confirm that establishing lower rates for the activities performed by the mailer to create a lower-cost mailpiece will result in rates that more closely tie to the costs to the Postal Service of handling that mail. If not confirmed, please explain.

(d) Please confirm that, under the circumstances described in part c above, one result of rate de-averaging may be that some mailers of higher-cost mail will pay

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higher rates more closely aligned with the cost to the Postal Service of handling that mail. If not confirmed, please explain.

Response to USPS/UPS-T4-14.

(a) Confirmed, all else equal, if no discount is offered. Otherwise, not confirmed.

(b) Those entities performing the worksharing without a specific rate incentive are doing so for other reasons, including, for example, the activity may lower their total costs, or the activity may yield better service (e.g., faster transit times). Those entities have deemed it beneficial to themselves in the absence of a discount to perform the activity. In such a situation, introducing a discount provides no additional cost savings for the Postal Service, and unless the revenue lost from the discount is recovered from non-workshared mail, there is less contribution to institutional costs. It is a question left to the Commission's judgment whether it is more fair to lower the rate to an entity for performing a worksharing activity for which the entity already receives more benefits than costs in the absence of the discount, or to maintain lower rates for all. In consideration of this issue and others identified in my testimony, I recommend a 77 percent passthrough for the proposed Parcel Post discounts.

(c) Confirmed. See my response to part (b), above.

(d) Confirmed. See my response to part (b), above.

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USPS/UPS-T4-15. Please refer to your testimony at page 29, lines 10 through 13. Please provide any and all information available to you, including field studies, indicating that the DDU entry mail “could very well arrive in containers that are more costly to handle in the manual parcel sortation area than Parcel Post arriving from the DSCF or the DBMC.”

Response to USPS/UPS-T4-15. Since the Postal Service did not perform a containerization study for DDU entry mail, it is highly likely -- in fact, it is almost a certainty -- that DDU mail will have a container profile different from that now on the postal network. For example, according to Ms. Daniel's study, sacks are more costly to handle at the DDU after unloading than are other containers. Each container in Ms. Daniel's study has different efficiencies associated with its handling. Clearly, there would be different efficiencies for different types of containers when handled at the DDU. Neither I nor the Postal Service have performed any field studies on this issue.

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USPS/UPS-T4-16. Please refer to your testimony at page 33, lines 6 through 9 where you state, "Mr. Hatfield, in deriving the cost of DDU transportation, implicitly assumes that DDU has the same density profile as DSCF and DBMC, since he uses the local transportation costs for the DSCF and DBMC categories to derive the DDU transportation cost avoidance." [footnote omitted]

(a) Please identify the portion(s) of Mr. Hatfield's testimony from which you have derived the conclusion.

(b) Please provide a citation to the portion of Mr. Hatfield's testimony or workpapers in which he uses the density profile of DSCF or DBMC to develop DDU cost avoidances.

(c) Have you performed an analysis, using something other than the DBMC or DSCF density profile, to develop alternative estimates of the DDU cost avoidance? If so, please provide both the methodology used and the results.

Response to USPS/UPS-T4-16.

(a) - (b) Mr. Hatfield does not use density profiles to develop the DDU cost avoidance. The reference in my testimony relates to Mr. Hatfield's statement on page 1 of his testimony (USPS-T-16) that he "estimates the potential difference in transportation costs between DBMC parcel post entered at a destination P&DC and a new rate category of parcel post entered at a destination delivery unit (DDU)." There is no reason to compute the transportation cost difference between DBMC and DDU mail

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under the rate design technique used by Ms. Mayes. Instead, the transportation cost difference between intra-BMC local and DDU mail would be computed. Throughout his testimony, Mr. Hatfield, quite logically, refers to DBMC, DSCF and DDU parcel post as related (see page 24 and Appendix III, page 5 of 9). I interpreted Mr. Hatfield's discussion as support for the logical notion that DBMC, DSCF, and DDU mail pieces would have the same transportation cost for those legs on which they all travel. Having the same transportation cost -- in dollars, not just dollars per cubic foot --- for those legs on which the pieces travel would require that they have a similar density profile.

(c) No. The only techniques considered were the method used by Ms. Mayes and the method I recommend.

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USPS/UPS-T4-17. Please refer to your testimony at page 38, lines 5 through 8.

(a) Please confirm that you have examined the workpapers of Postal Service witness Mayes in this docket. If not confirmed, please provide the basis upon which you have reached your conclusions.

(b) If you confirmed part a, please confirm that in workpaper WP I.K., pages 7 and 8 of USPS-T-37, some cells in Zones 1 and 2 of intra-BMC are shown to have required increases exceeding 62 percent before being constrained to a lower increase. If not confirmed, please explain.

(c) If you confirmed part a, please confirm that in workpaper WP I.K., pages 9 and 10 of USPS-T-37, the unconstrained rate for a two-pound piece of inter-BMC Parcel Post with a Zone 8 destination would have increased more than 77 percent, had the rate increase not been constrained. If not confirmed, please explain.

(d) If you confirmed part a, please confirm that in workpaper WP I.K., pages 9 and 10 of USPS-T-37, some cells in Zones 1 and 2 of inter-BMC would have increased more than 75 percent, had the rate increases not been constrained. If not confirmed, please explain.

(e) If you confirmed part b, please confirm that in WP I.L and WP I.M. of USPS-T-37, the revenue losses associated with the constraint of rate increases in

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Zones 1 & 2 of intra-BMC were recovered in the form of an additional markup on all unconstrained cells, including DBMC rate cells. If not confirmed, please explain.

(f) If you confirmed part c or part d, please confirm that in WP I.L and WP I.M. of USPS-T-37, the revenue losses associated with the constraint of rate increases in inter-BMC were recovered in the form of an additional markup on all unconstrained cells, including DBMC rate cells. If not confirmed, please explain.

(g) Please confirm that at pages 24, 30 and 36 of workpaper WP I.L., USPS-T-37, the revenue loss associated with constraining DBMC is significantly less than the revenue loss associated with constraining the rate cells in either intra-BMC or inter-BMC. If not confirmed, please explain.

(h) Please confirm that at pages 22, 28 and 34 of workpaper WP I.M., USPS-T-37, the revenue loss associated with constraining DBMC is significantly less than the revenue loss associated with constraining the rate cells in either intra-BMC or inter-BMC. If not confirmed, please explain.

(i) Please identify the revenue loss you have identified at page 38 associated with capping the DBMC rates.

Response to USPS/UPS-T4-17.

(a) Confirmed.

(b) - (d) Confirmed, using the Postal Service's input assumptions.

(e) - (f) Confirmed.

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(g) - (h) Confirmed, using the Postal Service's input assumptions.

Correcting the Postal Service's overstatements of the destination entry discounts would change these figures.

(l) Without modifying Ms. Mayes model, I cannot identify the amount of lost revenue that results from using the Postal Service's input assumptions since the final iteration of her model includes constraints other than capping the DBMC rates.

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USPS/UPS-T4-18. Please refer to your testimony at pages 39 and 40.

Please explain why the 2 cents per pound charge should be the same for inter-BMC and intra-BMC when intra-BMC receives fewer handlings in the postal system.

Response to USPS/UPS-T4-18. Historically, the discount between inter-BMC and intra-BMC has been solely on a per piece basis, and a different non-transportation related charge would require a different discount at all weights. Thus, I chose at this time not to propose a different per pound charge for intra-BMC and inter-BMC. The charge could differ between inter-BMC and intra-BMC, and my methodology could be easily modified to do so. My suggested approach, with or without this modification, is preferable to the current approach.

DECLARATION

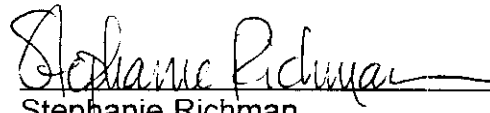
I, Ralph L. Luciani, hereby declare under penalty of perjury that the foregoing answers are true and correct to the best of my knowledge, information, and belief.

Ralph L. Luciani
Ralph L. Luciani

Dated: February 3, 1998

CERTIFICATE OF SERVICE

I hereby certify that I have this date served the foregoing document in accordance with section 12 of the Commission's Rules of Practice.


Stephanie Richman

Dated: February 4, 1998
Philadelphia, PA